Supreme Court, U.S.
FILED
961283 FEB 12 1997
OFFICE OF THE CLERK

No. _____

IN THE
Supreme Court of the United States
OCTOBER TERM, 1996

PAOLO GUCCI DESIGN STUDIO, LTD.,
Petitioner,

v.

FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, ET AL., GUCCIO GUCCI, S.p.A. and GUCCI AMERICA, INC.,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

PETITION FOR A WRIT OF CERTIORARI

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February 12, 1997

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QUESTIONS PRESENTED FOR REVIEW

1. Does Section 363(m) of the Bankruptcy Code violate the United States Constitution by permitting Bankruptcy Courts to seize and sell property over which they have no jurisdiction with no recourse to Article III courts?

2. Did the Court of Appeals for the Second Circuit correctly interpret Section 363(m) of the Bankruptcy Code when it held that a 24-hour lapse in a stay removed the jurisdiction of Article III courts to determine whether a Bankruptcy Court had improperly seized and sold post-petition intellectual property?

LIST OF PARTIES

In addition to the parties listed in the caption, the following were parties in the Court of Appeals: Licensing by Paolo, Inc., Trackwise Sales Corporation and Orologi Paolo, Inc.

PARENT COMPANIES AND NONWHOLLY OWNED SUBSIDIARIES

Paolo Gucci Design Studio, Ltd. is a corporate entity without parent companies or subsidiaries.

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No. ____

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FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, ET AL., GUCCIO GUCCI, S.p.A. and GUCCI AMERICA, INC.,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

PETITION FOR A WRIT OF CERTIORARI

Paolo Gucci Design Studio, Ltd. respectfully petitions the Court to issue a writ of certiorari to review a series of final Orders issued by the United States Court of Appeals for the Second Circuit on December 4, 1996, December 13, 1996 and December 24, 1996.

OPINIONS BELOW

The Orders of the Court of Appeals for the Second Circuit which petitioner seeks to appeal to this Court dismiss an appeal of a Bankruptcy Court determination on mootness grounds. The Court of Appeals issued an Opinion in support of its Orders on January 30, 1997.

The Orders entered by the Court of Appeals for the Second Circuit for which certiorari is requested were issued on December 4, December 13 and December 24, 1996. They are set out in Appendices A, B and C. A recent Opinion of the Court of Appeals for the Second Circuit dated January 30, 1997 is reported at 1997 WL 34000 (2d Cir. 1997) and is set out in Appendix D. A separate Order of the Court of Appeals for the Second Circuit dated November 22, 1996 granting a temporary stay of the Bankruptcy Court's sale of post-petition property is set out in Appendix E.

The Appendices also include relevant portions of determinations by the District Court and the Bankruptcy Court. A portion of a transcript embodying an oral order of the United States District Court for the Southern District of New York denying a stay of the Bankruptcy Court Order appears in Appendix F. An earlier Order of the District Court for the Southern District of New York granting a stay of the Bankruptcy Court's Order was issued on October 16, 1996 and appears in Appendix G.

An Order of the Bankruptcy Court for the Southern District of New York which seizes and sells petitioner's post-petition intellectual property appears in Appendix H. A related Decision and Order of the Bankruptcy Court

appears at Appendix I. This decision is reported at 202 B.R. 686 (S.D.N.Y. 1996).

JURISDICTION OF THE SUPREME COURT

The Orders of the Court of Appeals for the Second Circuit for which certiorari is sought were issued on December 4, 1996, December 13, 1996 and December 24, 1996. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. § 1254(1). This petition is timely filed under Rule 13.1 of the United States Supreme Court.

STATUTORY PROVISIONS INVOLVED IN THIS CASE

11 U.S.C. § 363 (m)

> The reversal or modification on appeal of an authorization under subsection (b) or (c) of this section of a sale or lease of property does not affect the validity of a sale or lease under such authorization to an entity that purchased or leased such property in good faith, whether or not such entity knew of the pendency of the appeal, unless such authorization and such sale or lease were stayed pending appeal.

CONSTITUTIONAL PROVISIONS INVOLVED IN THIS CASE

U.S. Constitution, Article III

> Section 1. The judicial power of the United States, shall be vested in one Supreme Court, and in such inferior courts as the Congress may from time to time ordain and establish. The judges, both of the supreme and inferior courts, shall hold their offices during good behaviour, and shall, at stated times, receive for their services, a compensation, which shall not be diminished during their continuance in office.

U.S. Constitution, Amendment V

> No person shall . . . be deprived of life, liberty, or property, without due process of law . . . .

STATEMENT OF THE CASE

The petitioner in this case, Paolo Gucci Design Studio, Ltd. (PGDS), holds the exclusive right to license the designs of Paolo Gucci. Prior to his death on October 10, 1995, Paolo Gucci was one of the pre-eminent fashion designers in the world. From 1952 to 1978, Mr. Gucci was the chief designer of consumer goods at the Guccio Gucci design studio founded by his grandfather in Florence, Italy.

After Paolo Gucci left the family firm, he established his own independent design studio. The core of Paolo Gucci's operations was the designs he created himself and the designs of the employees of his studio which he personally supervised and approved. Paolo Gucci identified these products as his creation by placing various marks on them.[1]

Following protracted litigation with the Guccio Gucci companies over the right to use his name in connection with his designs, Paolo Gucci prevailed in the District Court. On July 13, 1988, the District Court for the Southern District of New York issued a Final Judgment which held that all of the marks which identify goods as the creation of Paolo Gucci are "personal to Paolo Gucci."[2] The District Court therefore held that no one could register or use in an independent business operation, the name "Paolo Gucci" or any mark or symbol associated with Paolo Gucci, such as the initials "PG."[3] The District Court further held that Paolo Gucci could not "assign, license, grant, convey, lease or in any way transfer" his rights in any of the marks associated with his name "in whole or in part, to any person, natural or juridical."[4] In a subsequent decision, the District Court ruled that "the right to use the name 'Paolo Gucci' is not a form of intellectual property that can be bought and sold by anyone. . . ."[5]

On the other hand, the District Court did permit Paolo Gucci, *as an individual*, to license the use of his name

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1 *Gucci v. Gucci Shops, Inc.*, 651 F.Supp. 194, 195 (S.D.N.Y. 1986).
2 *Gucci v. Gucci Shops, Inc.*, 1988 WL 75263 (S.D.N.Y. July 13, 1988), at *3.
3 *Id.* ¶ 8, at *1.
4 *Id.* ¶ 14, at *3.
5 *In re Gucci*, 193 B.R. 411, 417 (Bankr. S.D.N.Y. 1996).

and marks associated with his name to a master licensee, such as PGDS.[6] The court also permitted the master licensee to sub-license the right to produce and identify products as designed or selected by Paolo Gucci.[7] However, emphasizing that the right to use the Paolo Gucci marks, trademarks and symbols was strictly personal to Paolo Gucci, himself, the District Court determined that all rights to use or license the Paolo Gucci name were subject to the condition that:

> All designs indicated as being "Designed by Paolo Gucci" are, in fact, designed by Mr. Paolo Gucci, and all designs indicated as being "Selected by Mr. Paolo Gucci" are, in fact, selected by Mr. Paolo Gucci.[8]

On February 8, 1994, Paolo Gucci filed a petition for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court for the Southern District of New York. Following the filing of the petition, Paolo Gucci resumed his designing career in order to earn a living. He entered into a contract with PGDS, the petitioner before this Court, which was designated as the master licensee of all Paolo Gucci *post-petition* designs throughout the world.

PGDS began its operations with great success and showed promise of even greater achievement. It proceeded to sub-license other companies to manufacture and produce consumer goods based on Paolo Gucci's new designs. A

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[6] *Gucci v. Gucci Shops, Inc.*, No. 83 Civ. 4453 (WCC), slip op. (S.D.N.Y. Jan. 12, 1994). This Order appears as Appendix J to this petition, ¶ 2(a) at 54a.

[7] *Id.* ¶ 2(b), at 54a.

[8] *Id.* at 54a.

report filed in the Bankruptcy Court by an advertising and promotional strategy company described the market in which Paolo Gucci products would compete as a $115.3 billion a year market, with Paolo Gucci designs having the potential to achieve revenues of more than 1% of the market. At that level of sales, revenues from the sale of Paolo Gucci products would exceed $1.3 billion a year. The same advertising and promotional strategy company conservatively estimated that retail sales of PGDS within five years would range from $455 million to $682 million per year.

A. Proceedings in the Bankruptcy Court

On May 15, 1996 the Bankruptcy Court announced that it would conduct an auction of all intellectual property of Paolo Gucci. PGDS immediately filed a motion with the court seeking a determination that Paolo Gucci's *post-petition* designs, which it had the exclusive right to license, were not property of the bankruptcy estate and could not be sold by the Bankruptcy Court. As noted above, under the terms of its contract with Paolo Gucci, PGDS had been given the exclusive right to license the manufacter and sale of consumer goods produced from the designs Paolo Gucci created after he filed his bankruptcy petition.

The Bankruptcy Court proceeded to conduct the auction without deciding the PGDS motion. On September 17, 1996, the Bankruptcy Court ruled that Guccio Gucci had prevailed at the auction. A month later, the Bankruptcy Court ruled that Paolo Gucci's post-petition designs were part of the bankruptcy estate which had been sold to Guccio Gucci.[9] According to the Bankruptcy Court, Paolo Gucci's

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[9] *See* Amended Decision on Motion to Determine Whether Post Petition Designs Are Property of the Estate, Appendix at 38a.

very name became property of the bankruptcy estate the moment he filed a bankruptcy petition.[10] Therefore, according to the Bankruptcy Court, when Paolo Gucci continued to design products using his own name, all of the products he created became part of the bankruptcy estate, even though Paolo Gucci created them after he had filed a bankruptcy petition.[11]

On the basis of that ruling, the Bankruptcy Court issued an Order approving the sale to Guccio Gucci of:

> d) all rights to use the name "Paolo Gucci" commercially (. . . and all other rights to identify products as having been designed or selected by, or under the supervision, direction or authority of, or with the approval of, Paolo Gucci), and all good will associated therewith, throughout the world . . .;
>
> e) . . . all designs created or selected by or under the supervision, direction or authority of, or approved by, Paolo Gucci, whether designed, selected or approved *before or after* the commencement of the above-captioned chapter 11 cases . . . .[12]

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[10] *Id.* at 49a.

[11] *Id.* at 50a-51a.

[12] *See* Order (A) Approving Sale of Paolo Gucci Name, Trademarks and Licensing Rights Free and Clear of Liens, Claims and Encumberances Pursuant to Section 363 of the Bankruptcy Code, (B) Rejecting Certain License Agreements Pursuant to Section 365 of the Bankruptcy Code, and (C) Confirming and Approving Termination of the Stipulation with Trackwise Sales Corporation, Appendix at 29a (emphasis added).

The Bankruptcy Court Order also ruled that "PGDS does not own, or have the right to use or license" any of Paolo Gucci's designs,[13] prohibited PGDS from using the post-petition designs in its possession,[14] and ordered PGDS to turn these designs over to the Trustee.[15] Despite the District Court's orders that all marks and symbols associated with the Paolo Gucci name were not intellectual property but rather were personal to Paolo Gucci, the Bankruptcy Court also held that it could sell the right to use these marks. As noted above, the sale of both the post-petition designs as well as the right to identify goods as the creation of Paolo Gucci was made to Guccio Gucci. Guccio Gucci had announced that its purpose in purchasing these designs was to destroy them.

B. PGDS' Appeal of the Bankruptcy Court Order

Section 363(m) of the Bankruptcy Code states that unless a stay is obtained pending appeal, the "reversal or modification on appeal. . . of a sale or lease. . . does not affect the validity of [the] sale or lease."

In an effort to comply with this provision, PGDS applied to the Bankruptcy Court on October 15, 1996 for a stay of its Order. The Bankruptcy Court denied the stay but delayed the implementation of its Order for 48 hours to permit an application for stay to be made to the District Court. On October 16, 1996, the District Court entered a stay of the Bankruptcy Court's sale Order pending appeal.[16] An appeal was then filed with the District Court on an

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13 *Id.* at 30a.

14 *Id.* at 31a.

15 *Id.*

16 *See* Appendix at 22a.

expedited basis. On November 21, 1996, the District Court denied the appeal without issuing a written decision. The District Court then refused to grant a stay or extend the stay it had previously granted for 48 hours to permit a further application for stay to the Court of Appeals.

Nonetheless, PGDS sought a stay from the Court of Appeals since none of the parties had changed its position following the denial of the stay by the District Court. That stay was granted by a single judge of the Court of Appeals less than 24 hours later.[17] The stay was extended orally by a panel of the Court of Appeals on December 3, 1996. However, the next day, the panel issued another decision holding that it did not have jurisdiction to consider the issue further since the 24-hour lapse that had occurred between the District Court's refusal to extend the stay and the entry of a stay by a judge of the Court of Appeals rendered the appeal moot.[18]

According to the Court of Appeals, Section 363(m) of the Bankruptcy Code deprived Article III courts, such as Courts of Appeals, of jurisdiction to consider the propriety of the Bankruptcy Court's Order seizing and selling post-petition property. The Court of Appeals issued that determination despite the fact that PGDS maintained that the Bankruptcy Court had no jurisdiction to sell its property. In addition, the record before the Court of Appeals demonstrated that none of the parties, including the purchaser of post-petition property, had changed its position during the 24-hour period that elapsed between the District Court's refusal to stay the Bankruptcy Court's

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17 *See* Appendix at 18a.

18 *See* Order of the Court of Appeals for the Second Circuit Dated December 4, 1996, Appendix at 1a.

Order and the issuance of a stay by a judge of the Court of Appeals. The record indicated, for example, that even though the sale of assets had technically "closed," $1,000,000 of the total $3,650,000 purchase price had not yet been paid.[19] The record further shows that although $2,650,000 had been transferred to the Trustee, it was being held in a bank account and was not to be disbursed until the appeal had been decided.[20] The record also indicated that no change in position had occurred by any of the parties with respect to the property involved in the case – *i.e.*, the post-petition designs.

REASONS FOR GRANTING THE WRIT

I. This Case Presents Important Constitutional Issues Concerning The Extent to Which Bankruptcy Courts Can Deprive Citizens of Their Rights and Property Without Recourse to Article III Courts.

In *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*,[21] the Court held that "[p]rivate-rights disputes . . . lie at the core of the historically recognized judicial power."[22] The Court therefore held that legislation that conferred full plenary powers on legislative courts – *viz.*, the Bankruptcy Courts – was contrary to fundamental constitutional principles. The Court stated that acceptance of that arrangement:

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[19] It is petitioner's understanding that the $1,000,000 has still not been paid to the bankruptcy trustee.

[20] *See* Appendix at 2a.

[21] 458 U.S. 50, 103 S.Ct. 2858 (1982)

[22] *Id.* at 70.

> . . . would require that we replace the principles delineated in our precedents, rooted in history and the Constitution, with a rule of broad legislative discretion that could effectively eviscerate the constitutional guarantee of an independent Judicial Branch of the Federal Government.[23]

We would respectfully suggest that Section 363(m) of the Bankruptcy Code as applied to the petitioner in this case has produced the very danger which led the Court to rule portions of the Bankruptcy Code unconstitutional in *Marathon*.

In this case, the Bankruptcy Court seized and sold at auction, property that was never part of the bankruptcy estate at the time a Chapter 11 bankruptcy petition was filed. The property – designs created by Paolo Gucci – was entirely created *after* the bankruptcy filing and was assigned to petitioner PGDS for licensing, manufacturing and distribution. Despite the fact that it had no jurisdiction over this property, the Bankruptcy Court nonetheless proceeded to seize and sell it. When petitioner PGDS appealed the Bankruptcy Court's Order, the Court of the Appeals dismissed the appeal, ruling that Section 363(m) deprived it of jurisdiction to hear a challenge to the decision of the Bankruptcy Court.

The ruling of the Court of Appeals has drastic implications. Under the ruling, a Bankruptcy Court can seize the property of any person in this country and sell it without that person ever having recourse to an Article III court. The issues presented involve the abrogation of

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[23] *Id.* at 74.

fundamental rights. It is, moreover, particularly important for this Court to consider these issues in view of the frequency of Bankruptcy Court proceedings in the American economy.

We, therefore, respectfully suggest that it is most important that this Court determine whether Section 363(m) of the Bankruptcy Code violates Article III of the Constitution to the extent that it deprives citizens of recourse to Article III courts when their property is seized and sold by Bankruptcy Courts.

II. This Case Presents Important Issues That Have Been Resolved Differently by the Courts of Appeals for the Second, Third and Tenth Circuits.

In this case, the Court of Appeals for the Second Circuit dismissed PGDS' appeal from a Bankruptcy Court Order seizing and selling its property. The Court of Appeals apparently considered the appeal moot since it believed that no effective remedy could be provided in view of the provisions of Section 363(m). The Court of Appeals adopted that position even though the bankruptcy estate had received at least $2,650,000 as a result of the sale of that property and was anticipating receiving an additional $1,000,000.

The Courts of Appeals for the Tenth Circuit and the Third Circuit have taken diametrically different approaches. In *In re Osborn,*[24] the Court of Appeals for the Tenth Circuit held that Section 363(m) did not prevent the Court

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[24] 24 F.3d 1199 (10th Cir. 1994).

from considering an appeal from the sale of property by a Bankruptcy Court to a third party. According to the Court of Appeals for the Tenth Circuit, a constructive trust consisting of the proceeds of the sale could be created to provide some measure of relief in the event the petitioners prevailed in their appeal.

That same type of trust would afford the same measure of relief in the present case since at the time the Court of Appeals for the Second Circuit dismissed the PGDS appeal, a bank account controlled by the Trustee contained $2,650,000 which represented the proceeds of the sale. In addition, under the terms of the sale, an additional $1,000,000 was to be remitted to the Bankruptcy Trustee to complete the sale.

The decision of the Court of Appeals for the Second Circuit is also contradicted by an *en banc* decision of the Court of Appeals for the Third Circuit. In *In re Swedeland Development Group, Inc.*,[25] the Third Circuit considered whether Section 364(e) of the Bankruptcy Code required it to dismiss an appeal as moot. Section 364(e) involves loans and security interests approved by a Bankruptcy Court. It contains language that is virtually identical to Section 363(m) with respect to the permissibility of appeals.[26] The case

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25 16 F.3d 552 (3d Cir. 1994).

26 Section 364(e) states: "The reversal or modification on appeal of an authorization under this section to obtain credit or incur debt, or of a grant under this section of a priority or a lien, does not affect the validity of any debt so incurred, or any priority or lien so granted, to an entity that extended such credit in good faith, whether or not such entity knew of the pendency of the appeal, unless such authorization and the incurring of such debt, or the granting of such priority or lien, were stayed pending appeal."

before the Court involved an appeal by a bank that had a pre-bankruptcy lien on real property and proceeds of the debtor. The Bankruptcy Court had permitted the estate to enter into other loans that would be superior in interest to the bank's security interest. The bank appealed the decision even though the loans had closed and proceeds had been disbursed.

Rejecting an argument that the appeal was moot, the Court of Appeals for the Third Circuit held that:

> . . . there is no escape from the logic that inasmuch as section 364(e) provides for the consequences of the reversal or modification of an order under section 364(d) when the order has not been stayed pending appeal, it is impossible to conclude that section 364(e) in itself requires that an appeal be dismissed if a stay is not obtained.[27]

The Court of Appeals for the Third Circuit also ruled that since all loan proceeds had not yet been disbursed, there is no reason why some measure of relief could not be granted on an appeal:

> . . . we see no reason why section 364(e) should be understood to protect a lender with respect to money it has not disbursed. Surely if a section 364(d) order is reversed and thereafter the lender makes no further disbursements, the lender does not need protection for the funds which it has retained.[28]

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[27] 16 F.3d at 559.

[28] *Id.* at 561.

The factual situation is the same in this case – but with a different resolution. At the time the Court of Appeals for the Second Circuit considered the PGDS appeal, the buyer of post-bankruptcy petition assets had not yet paid the full purchase price for those assets.[29] Moreover, $2,650,000 of the purchase price was still being held by the Trustee under an agreement that it would not be disbursed until the Court of Appeals had ruled on the matter.[30] The Court of Appeals for the Second Circuit could certainly have provided the same remedies to PGDS that the Third Circuit provided in *Swedeland.*

The circumstances under which appeals can be taken from Bankruptcy Court orders are a most important facet of the administration of the bankruptcy laws. We respectfully suggest that certiorari should be granted to resolve a conflict between the Circuits.

CONCLUSION

In recent years bankruptcy proceedings nave been used as a routine business device by both debtors and creditors. As a result, bankruptcy cases cast a very wide net. It is therefore important that courts be mindful of the potential infringement of individual property rights that may result from Bankruptcy Court proceedings. This case illustrates the danger.

A Bankruptcy Court has seized and sold intellectual property which it acknowledges was created *after* the filing

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[29] As stated above, it is our understanding that the buyer, Guccio Gucci S.p.A. and Gucci America, Inc., has still not remitted to the bankruptcy estate $1,000,000 of the full $3,650,000 purchase price.

[30] *See* Appendix at 2a.

of a Chapter 11 bankruptcy petition. That Bankruptcy Court has also issued an injunction prohibiting third parties from exercising their contractual rights to license and market products based on that intellectual property. In the face of the Bankruptcy Court's attempt to exercise jurisdiction over post-petition property, the Court of Appeals for the Second Circuit has stated that it may not even consider an appeal from the Bankruptcy Court's decisions and orders. The Second Circuit adopted that position despite the fact that only 24 hours elapsed between the dissolution of a stay and the entry of a new stay by a judge of the Court of Appeals and despite the fact that the status quo remained essentially unchanged during that 24-hour period.

The Orders entered by the Court of Appeals for the Second Circuit impinge on the fundamental and historic rights of citizens to bring their grievances to Article III courts. They also contradict decisions of the Court of Appeals for the Third Circuit and the Court of Appeals for the Tenth Circuit with respect to the same or similar issues. Both of these courts have refused to dismiss appeals under similar circumstances and have found a basis for correcting errors of the Bankruptcy Court.

Petitioner Paolo Gucci Design Studio, Ltd. respectfully requests that a writ of certiorari be granted so that this Court can review these important issues.

Respectfully submitted,

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February 12, 1997 *Attorneys for Petitioners*

APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Nos. 96-5138 (L) and 96-5142 (CON)

In Re: PAOLO GUCCI,
Debtor.

LICENSING BY PAOLO, INC., PAOLO GUCCI DESIGN STUDIO, LTD. and TRACKWISE SALES CORP.,
Appellants,

v.

FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, ET AL., GUCCIO GUCCI, S.P.A. and GUCCI AMERICA, INCORPORATED,
Appellees.

December 4, 1996

ORDER

Since the sale closing has occurred, whether or not some funds remain to be paid, appellants' motion to stay the District Court's order of November 21, 1996, is denied as moot. The emergency stay previously entered by Judge Leval and continued by this panel pending disposition of the pending stay motion, has therefore ended.

Appellees' motion to dismiss the appeal as moot is granted in part and denied in part. Our jurisdiction over an unstayed order for a completed sale, ordered by a bankruptcy court, is extremely limited. See 11 U.S.C. § 363(m); United Stat v. Salerno, 932 F.2d 117, 123 (2d Cir. 1991). We may review the order for the sale only to determine the limited issue of whether the property was sold to a good faith purchaser. The appeal is therefore moot and is dismissed, except to the extent that an appeal is available on that limited issue. The appeal, limited to the issue of whether the sale was made to a good faith purchaser, has been expedited per the schedule announced in open court on December 3, 1996.

In aid of our appellate jurisdiction, we Order that the appellees not destroy any property acquired pursuant to the sale, pending disposition of the appeal. The Trustee has agreed in open court not to disburse proceeds of the sale, pending disposition of the appeal.

/s/ Jon O. Newman
Chief Judge.

/s/ James L. Oakes (by J.O.N)

/s/ Ralph K. Winter (by J.O.N.)
Circuit Judges.

APPENDIX B

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Nos. 96-5138 (L) and 96-5142 (CON)

In Re: PAOLO GUCCI,
Debtor.

LICENSING BY PAOLO, INC., PAOLO GUCCI DESIGN STUDIO, LTD. and TRACKWISE SALES CORP.,
Appellants,

v.

FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, ET AL., GUCCIO GUCCI, S.P.A. and GUCCI AMERICA, INCORPORATED,
Appellees.

December 13, 1996

ORDER

Upon consideration of the petition for rehearing, the petition is denied. Our prior order limiting the appeal to the issue of the purchaser's good faith should be understood to include the issue of whether the purchaser in good faith was unaware that the sale included post-petition property of the debtor. That order should also be understood to be without prejudice to whatever claims might be asserted against the trustee for sale of post-petition property. We express no views on whether the sale included any post-petition property. An opinion will be issued explicating the reasons for our prior order.

/s/ Jon O. Newman
Chief Judge.

/s/ James L. Oakes (by J.O.N.)

/s/ Ralph K. Winter (by J.O.N.)
Circuit Judges.

APPENDIX C

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Nos. 96-5138, 96-5142, 96-5144,
96-5146, 96-3133 (mandamus)

Present:

HONORABLE AMALYA L. KEARSE

HONORABLE RICHARD J. CARDAMONE

Circuit Judges

HONORABLE MILTON POLLACK

District Judge[1]

In Re: PAOLO GUCCI,
Debtor.

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[1] Honorable Milton Pollack, United States District Court Judge for the Southern District of New York, sitting by designation.

LICENSING BY PAOLO, INC., PAOLO GUCCI DESIGN STUDIO, LTD. and TRACKWISE SALES CORPORATION and OROLOGI PAOLO, INC.,

Appellants,

-against-

FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, ET AL., GUCCIO GUCCI, S.P.A. and GUCCI AMERICA, INCORPORATED,

Appellees.

December 24, 1996

ORDER

Appellants Licensing by Paolo, Inc., Paolo Gucci Design Studio, Ltd., Trackwise Sales Corp., and Orologi Paolo, Inc. seek reversal of an order by the United States Bankruptcy Court for the Southern District of New York (Gallet, J.), approving the sale of bankruptcy estate assets. The sale was consummated on November 22, 1996, one day after the United States District Court for the Southern District of New York (Griesa, C.J.) affirmed the bankruptcy court's order. Appellants brought an expedited appeal to this Court, making a variety of challenges to the bankruptcy court's sale order. By order dated December 4, 1996 a panel of this Court dismissed the appeal as moot, except to the extent that the issue was whether purchaser Guccio Gucci acted in good

faith as required under 11 U.S.C. § 363 (m). The panel also ordered appellees not to destroy any property acquired pursuant to the sale, pending disposition of the appeal and noted that the Trustee had agreed in open court not to disburse proceeds of the sale, pending disposition of the appeal. By order filed December 13, 1996 the panel denied reconsideration, noting that an opinion would follow, and stating, inter alia, that the December 4 order dismissing claims other than that of whether Guccio Gucci was a good faith purchaser was without prejudice to any claims that might be asserted against the Trustee for sale of post-petition property, if any. Argument was heard on the undismissed portion of the appeal on December 17, 1996.

Trackwise filed for a writ of mandamus, or alternatively a writ of prohibition, directing Bankruptcy Judge Gallet to rule on a pending motion made by Trackwise in its pending bankruptcy proceeding.

Upon consideration of the parties' briefs and arguments, it is hereby ordered that the district court's order approving the sale of the bankrupt Paolo Gucci estate assets be and it hereby is affirmed, without prejudice to whatever claims might be asserted against the Trustee for sale of post-petition property, if any. An opinion explicating our analysis will follow.

It is hereby ordered that Trackwise's petition be and it hereby is denied, without prejudice to Trackwise's similar request for relief in the United States District Court for the Southern District of New York.

/s/ Amalya L. Kearse
Hon. Amalya L. Kearse, U.S.C.J.

/s/ Richard J. Cardamone
Hon. Richard J. Cardamone, U.S.C.J.

/s/ Milton Pollack
Hon. Milton Pollack, U.S.D.J.

APPENDIX D

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Nos. 96-5138 (L), 96-5142 (CON), 96-5144 (CON), 96-5146 (CON) and 96-3133 (CON)

In re: PAOLO GUCCI,
Debtor.

LICENSING BY PAOLO, INC., PAOLO GUCCI DESIGN STUDIO, LTD. and TRACKWISE SALES CORPORATION and OROLOGI PAOLO, INC.,
Appellants,

v.

FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, ET AL., GUCCIO GUCCI, S.P.A. and GUCCI AMERICA, INCORPORATED,
Appellees.

Argued: December 3, 1996 - Decided: January 30, 1997

OPINION

Before: NEWMAN, Chief Judge, OAKES and WINTER, Circuit Judges.

Motion for stay pending appeal and cross-motion to dismiss appeal from a judgment of the United States District Court for the Southern District of New York (Thomas P. Griesa, Chief Judge), affirming an order of the Bankruptcy Court (Jeffry H. Gallet, Bankruptcy Judge) to sell property of a debtor.

Motion for stay denied as moot; motion to dismiss appeal granted in part and denied in part.

Melvin Goldstein, Goldstein & Claxton, Washington, D.C., for appellants Licensing By Paolo, Inc. and Paolo Gucci Design Studio, Ltd.; Michael S. Kimm, Hackensack, N.J. for appellant Trackwise Sales Corp.; Allan C. Samuels, Kenneth Greenwald, Parker Duryee Rosoff & Haft, New York, N.Y., for appellant Orologi Paolo, Inc.

Jonathan L. Flaxer, Winick & Rich, for appellee Frank G. Sinatra, Trustee; Robert Serio, Gibson, Dunn & Crutcher, New York, N.Y.,

for appellees Guccio Gucci, S.P.A.;
and Gucci America, Incorporated.

David R. Kittay, Kittay, Gold &
Krebsbach,
White Plains, N.Y.,
for the Creditors' Committee.

JON O. NEWMAN, Chief Judge:

On this motion to dismiss an appeal involving a bankruptcy sale, we write to alert district judges to a major and perhaps unappreciated significance of their action, after denying a stay pending appeal, in denying even a one-day stay to permit a party to seek a stay pending appeal from the Court of Appeals. This matter arises on a motion to stay a bankruptcy sale order pending appeal and a cross-motion to dismiss the appeal as moot. The motion to dismiss presents the issue of whether and to what extent our appellate jurisdiction remains to review a bankruptcy court order for the sale of a debtor's assets when the district court has denied an application to stay the sale pending appeal and the sale has closed before the appeal is heard. We hold that pursuant to Bankruptcy Code § 363 (m) we have no jurisdiction to review an unstayed sale order once the sale occurs, except on the limited issue of whether the sale was made to a good faith purchaser.

Facts

On October 15, 1996, Bankruptcy Judge Gallet entered an order authorizing the Chapter 11 trustee (the

"Trustee") for the estate of Paolo Gucci et al., to sell Paolo Gucci trademark and licensing rights to appellees, Guccio Gucci, S.p.A. and Gucci America Inc. The appellants, Trackwise Sales Corporation, Licensing by Paolo, Inc. ("LBP") and Paolo Gucci Design Studio, Ltd. ("PGDS") immediately sought a stay pending appeal of Judge Gallet's order to the District Court. Judge Gallet denied the stay, but delayed the sale to afford the appellants a brief interval to seek a stay in the District Court. After initially expediting the appeal to the District Court, Chief Judge Griesa, at a hearing on November 21, 1996, affirmed Judge Gallet's sale order, and declined to stay the sale order pending further appeal to this Court, finding that the appellants had little likelihood of success on the merits. In a further ruling the same day, one that has now assumed critical importance, Chief Judge Griesa also denied even a brief stay to enable the appellants to seek from this Court a stay pending appeal.

The appellants then expeditiously moved in this Court for an emergency stay pending panel consideration of a motion for a stay pending appeal. Under our Court's usual practice, the emergency motion was treated as one-judge motion and granted by Judge Leval on November 22, 1996. However, hours before he acted, the sale was consummated by the conveyance of the assets and a wire transfer of funds. On December 3, 1996, this panel heard the appellants' motion for a stay pending appeal and the appellees' cross-motion to dismiss the appeal as moot because the sale had closed prior to the filing of Judge Leval's stay order. We continued the emergency stay to afford us a brief opportunity to consider the argued motions, reserved decision on those motions, and expedited the appeal.

The next day, we filed an order denying as moot the motion for a stay pending appeal "[s]ince the sale closing has occurred, whether or not some funds remain to be paid." Licensing by Paolo, Inc. v. Sinatra (In re Paolo Gucci), No. 5138 (2d Cir. Dec. 4, 1996). That order recited that it ended the emergency stay previously entered by Judge Leval and briefly extended by the panel. Id. The same order also granted in part the appellees' motion to dismiss the appeal as moot, except to the extent that an appeal is available on the limited issue of whether the property was sold to a good faith purchaser. Id. We also ordered, in aid of our appellate jurisdiction, that the appellees not destroy any property acquired pursuant to the sale, pending disposition of the appeal. The Trustee had previously agreed at the December 3 argument on the motions not to disburse proceeds of the sale, pending the appeal.

On December 13, 1996, we denied appellants' petition for rehearing, but clarified our prior order to include in the issue of good faith the question of whether the purchaser in good faith was unaware that the sale included post-petition property. Licensing by Paolo, Inc. v. Sinatra (In re Paolo Gucci), No. 96-5138 (2d Cir. Dec. 13, 1996). We also stated that our prior order should be understood to be without prejudice to whatever claims might be asserted against the Trustee for sale of post-petition property. Id. Finally, we stated that we would issue an opinion explaining the reasons for the December 4 order. Id.

Discussion

Our appellate jurisdiction over an unstayed sale order issued by a bankruptcy court is statutorily limited to the narrow issue of whether the property was sold to a good

faith purchaser. See 11 U.S.C. § 363 (m); United States v. Salerno, 932 F.2d 117, 123 (2d Cir. 1991). Section 363 (m) provides:

> The reversal or modification on appeal of an authorization . . . of a sale or lease of property does not affect the validity of a sale or lease under such authorization to an entity that purchased or leased such property in good faith, whether or not such entity knew of the pendency of the appeal, unless such authorization and such sale or lease were stayed pending appeal.

11 U.S.C. § 363 (m). Though this provision in terms states only that an appellate court may not "affect the validity" of a sale of property to a good faith purchaser pursuant to an unstayed authorization, and can even be read to imply that an appeal from an unstayed order may proceed for purposes other than affecting validity of the sale, courts have regularly ruled that the appeal is moot. See, e.g., Ewell v. Diebert (In re Ewell), 958 F.2d 276, 280 (9th Cir. 1992); Anheuser-Busch, Inc. v. Miller (In re Stadium Management Corp.), 895 F.2d 845, 847 (1st Cir. 1990); Cargill, Inc. v. Charter International Oil Co. (In re The Charter Co.), 829 F.2d 1054, 1056 (11th Cir. 1987). As one court reasoned, the appeal is moot because "the court has no remedy that it can fashion even if it would have determined the issues differently." Stadium Management, 895 F.2d at 847; see The Charter Co., 829 F.2d at 1056.[1] Thus, regardless of the merit of an

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[1] It is not entirely clear why an appellate court, considering an appeal from an unstayed but unwarranted order of sale to a good faith purchaser, could not order some form of relief other than invalidation of the sale. See, e.g., In re Lloyd, 37 F.3d 271, 273 (7th Cir. 1994) (claim for return

appellant's challenge to a sale order, we may neither reverse nor modify the judicially-authorized sale if the entity that purchased or leased the property did so in good faith and if no stay was granted.

We have recognized that a rule limiting appellate jurisdiction over unstayed sale orders to the issue of good faith furthers the policy of finality in bankruptcy sales, Salerno, 932 F.2d at 123, and assists the bankruptcy court to secure the best price for the debtor's assets. Id. This limitation of the issues on appeal generally is warranted where an appellant did not seek a stay pending appeal, as was the case in Salerno, id. at 122, and reflects the view that an appellant is rightly burdened with the risks associated with challenging a sale authorization when that appellant did not first seek to stay the sale, see Official Committee of Unsecured Creditors of LTV Aerospace and Defense Co. v. Official Committee of Unsecured Creditors of LTV Space Co. (In re Chateaugay Corp.), 988 F.2d 322, 326 (2d Cir. 1993). The limitation also recognizes that this Court may be powerless to undo or rewrite the terms of the consummated sale. See Salerno at 123.

Yet even where an appellant timely moves to stay a judicially-authorized sale, a district court's denial of that motion will similarly limit the issues on appeal. Although an appellant's challenge to a sale authorization might raise meritorious arguments, a district court's denial of a requested stay has the effect of precluding this Court from reviewing those issues, other than the good faith of the purchaser, if the

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of land moot, but court may consider claim that proceeds are subject to homestead exemption). In any event, whatever other relief might be available could presumably be pursued in the bankruptcy court by those entitled to such relief.

sale has closed in the interim. It therefore becomes important for district judges to appreciate the special consequences of denying a stay of a bankruptcy sale, even a very brief stay to permit this Court time to consider whether it believes a stay pending appeal is warranted. We do not mean to imply that district courts should routinely grant stays pending appeal, or even routinely grant brief stays to permit this Court to consider granting such stays. There may well be substantial reasons for closing a sale promptly and assuring a good faith buyer that the sale cannot be undone. Our point is simply that, in this age of wire fund transfers, a district judge deciding whether to stay a bankruptcy sale pending appeal or pending appellate consideration of such a stay, should be aware that a closing occurring immediately after a stay is denied will substantially limit the scope of an appeal.

Conclusion

In accordance with the orders issued by this Court on December 4 and December 13, 1996, we reconfirm that the appellants' motion for a stay pending appeal has been dismissed as moot, and the appellees' motion to dismiss the appeal as moot has been granted except to the extent that the appeal challenges the good faith status of the purchaser of the debtor's assets.

APPENDIX E

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Nos. 96-5138 and 96-5142

In re: PAOLO GUCCI, et. al. ,
Debtors.

LICENSING BY PAOLO, INC. and PAOLO GUCCI DESIGN STUDIO, LTD.,
Appellants

v.

FRANK G. SINATRA, AS TRUSTEE OF THE SUBSTANTIVELY CONSOLIDATED ESTATES OF PAOLO GUCCI, et. al., GUCCIO GUCCI, S.p.A. and GUCCI AMERICA, INC.,
Appellees.

November 22, 1996

ORDER

Motions for stay pending appeal having been made by appellants, Paolo, Inc., and Paolo Gucci Design Studio, Ltd., and by movant, Trackwise Sales Corp.,

Upon consideration thereof, IT IS HEREBY ORDERED that said motions be, and they hereby are, GRANTED, only to the extent that a temporary stay is issued in each case pending a hearing on these motions for stay. IT IS FURTHER ORDERED that said hearing on each of the motions be held on Tuesday, December 3, 1996, at 10:00 AM.

FOR THE COURT:
GEORGE LANGE III, CLERK
by:
/s/ Beth J. Meador
Beth J. Meador, Administrative
[at]torney

APPENDIX F

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

No. 96 Civ. 8690

In re: PAOLO GUCCI

New York, N.Y.
November 21, 1996
4:20 p.m.

TRANSCRIPT SELECTION

Before:

HON. THOMAS P. GRIESA,

District Judge

THE COURT: Is there an application for further stay?

MR. GOLDSTEIN: Yes, your Honor.

THE COURT: I think I know the reason. What is the position of the other people on that application?

MR. FLAXER: Judge --

THE COURT: I assume the losing parties will go to the Court of Appeals. . . . If they are going to appeal, the Court of Appeals can accelerate. This is toward the end of November, but they can accelerate. They can at least decide whether they are going to stay.

MR. GOLDSTEIN: [T]he injury is certainly irreparable. If you do not grant the stay, we cannot appeal.

THE COURT: . . .
I'm denying the application for a stay.

MR. GOLDSTEIN: Your Honor, would you consider a stay until we can apply to the Court of Appeals for a stay?

THE COURT: I don't think there is anything. No, I am really not going to grant a stay at all.

(Adjourned)

APPENDIX G

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

M

In re: PAOLO GUCCI, et. al.,
Debtors.

October 16, 1996

STIPULATION AND ORDER

IT IS HEREBY STIPULATED AND AGREED by and among the undersigned that the order of the bankruptcy court, dated October 15, 1996, be and hereby is stayed up to and including November 20, 1996; and

IT IS FURTHER STIPULATED AND AGREED that appellants shall serve their opening briefs by telecopy on or before noon on October 29, 1996; answering briefs shall be served by telecopy on or before noon on November 10, 1996; and reply briefs shall be served by telecopy on or before 5:00 p.m. on November 15, 1996; and

IT IS FURTHER STIPULATED AND AGREED THAT ALL BRIEFS shall be filed on or before 5:00 p.m. on November 15, 1996; and in lieu of designating the record on appeal under Bankruptcy Rule 8006, the parties shall submit to the court a joint appendix on or before 5:00 p.m. on November 15, 1996; and the hearing of this appeal shall be heard on November 20, 1996 at 3:00 p.m.

Dated: New York, New York
October 16, 1996

WINICK & RICH, P.C.
By: /s/ Scott H. Wyner
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Attorneys for Licensing by Paolo, Inc. and Paolo Gucci Design Studio, Ltd.

SO ORDERED THIS 16th DAY OF OCTOBER 1996:

/s/ Thomas P. Griesa
United States District Judge

APPENDIX H

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

Substantively Consolidated
Chapter 11 Case No.
94 B 40614 (JHG)

In re PAOLO GUCCI, et al.,
Debtors.

October 15, 1996

ORDER (A) APPROVING SALE OF PAOLO GUCCI NAME, TRADEMARKS AND LICENSING RIGHTS FREE AND CLEAR OF LIENS, CLAIMS AND ENCUMBRANCES PURSUANT TO SECTION 363 OF THE BANKRUPTCY CODE, (B) REJECTING CERTAIN LICENSE AGREEMENTS PURSUANT TO SECTION 365 OF THE BANKRUPTCY CODE, AND (C) CONFIRMING AND APPROVING TERMINATION OF THE STIPULATION WITH TRACKWISE SALES CORPORATION

Upon (a) the Motion (the "Sale Motion") of Frank G. Sinatra, as trustee appointed in the above-captioned chapter 11 cases (the "Trustee"), for an order under section 363 of title 11 of the United States Code (the "Bankruptcy Code") approving the sale of the Purchased Assets (as defined below) to Guccio Gucci S.p.A. and Gucci America, Inc. (collectively, "Gucci") on the terms and conditions set forth in Gucci's offer dated March 26, 1996 (the "Initial Gucci Offer"), as waived, modified, augmented and supplemented in (i) the record of the hearings held in connection with the Global Settlement Motion and the Creditors' Committee Motion (as such terms are defined below), (ii) Gucci's Confirmation of Modifications dated May 22, 1996, (iii) a letter dated July 13, 1996 from Patton Boggs LLP, co-counsel to Gucci, to Kittay, Gold & Krebsbach, counsel to the Creditors' Committee and (iv) a letter dated August 5, 1996 from Gibson, Dunn & Crutcher LLP, co-counsel to Gucci, to Winick & Rich, P.C., counsel to the Trustee (the Initial Gucci Offer as so waived, modified, augmented and supplemented, the "Gucci Offer"), (b) the Motion of the Trustee dated December 19, 1995 (the "Global Settlement Motion") for approval of (i) that certain agreement dated as of October 3, 1995, as amended, by and among the Trustee, Paolo Gucci, Paolo Gucci Design Studio, Ltd. ("PGDS"), Penelope Jayne Armstrong, Centralbest Limited and Normans Ltd. (the "PG Settlement") and (ii) the rejection of certain license agreements under section 365(a) of the Bankruptcy Code, (c) the Motion of the statutory committee of unsecured creditors (the "Creditors Committee") dated March 27, 1996 for an order under section 363 of the Bankruptcy Code approving the sale of the Purchased Assets to Gucci in accordance with the Initial Gucci Offer (the "Creditors' Committee Motion"), (d) the Motion of the Trustee dated March 13, 1996, as supplemented in the Supplemental Motion of the Trustee dated July 12, 1996 (as

supplemented, the "Trackwise Motion"), for an order, among other things, (i) approving the termination and rejection under section 365(a) of the Bankruptcy Code of the license agreement between P.G. Creative Ltd. and Trackwise Sales Corporation ("Trackwise") and (ii) confirming the termination of the Stipulation of Settlement dated November 9, 1995, as amended, between the Trustee and Trackwise (the "Trackwise Stipulation"), (e) the Motion of PGDS dated May 3, 1996, as amended by Amended Motion dated September 3, 1996, for an order determining that certain designs created by Paolo Gucci are not property of the Estate and that PGDS owns such designs and the right to use the Paolo Gucci name in connection therewith (as amended, the "PGDS Motion"), (f) the Motion of Orologi Paolo, Inc. ("Orologi") dated August 23, 1996 for reconsideration of the Court's bench ruling on August 9, 1996 (the "Reconsideration Motion"), (g) the Motion of PGDS dated September 3, 1996 for an order removing the Trustee (the "Removal Motion"), (h) the Motion of PGDS dated September 3, 1996 for an order appointing an expert witness (the "Expert Motion"), (i) the Motion of Crown Corporation for an order holding Gucci in contempt (the "Contempt Motion"), (j) the Motion of Jennifer Puddefoot Gucci ("JPG") dated August 27, 1996 for a declaration of ownership of certain intellectual property rights and fixing compensation for such rights (the "JPG Motion"), and (k) the Motion of Gucci dated August 27, 1996 to quash a subpoena issued to Domenico De Sole, Gucci's chief executive officer, on behalf of Orologi (the "Motion to Quash") (collectively, the "Motions"); and upon consideration of the Motions, the pleadings filed in connection therewith and the responses and objections interposed in respect thereof; and the Court having conducted an auction of the Purchased Assets on May 15, 20 and 21, 1996 and August 2, 1996; and the Trustee having determined that the Gucci Offer constitutes the highest

and best offer for the Purchased Assets and is in the best interests of the estate; and the Trustee having withdrawn the Global Settlement Motion to the extent that it seeks approval of the PG Settlement, inclusive of the master license agreement dated October 3, 1995 between Paolo Gucci and PGDS; and the Creditors' Committee having withdrawn the Creditors' Committee Motion; and upon the amended decision of the Court dated October 9, 1996; and upon the record of the hearings held, testimony taken and documents admitted in evidence in respect of the Motions and the sale of the Purchased Assets to Gucci, and all other proceedings had before the Court; and after due deliberation and sufficient cause existing therefor, it is FOUND, DETERMINED AND DECREED

1. The "Purchased Assets" consist of the following property owned or held, on or at any time after the commencement of the chapter 11 cases, by, on behalf of, for the benefit of or in the name of Paolo Gucci, any entity owned or controlled by Paolo Gucci or the Estate:

a) all trademarks, service marks, trade names, business names and commercial names that contain the words "Paolo", "Gucci" or "Paolo Gucci" throughout the world, including, but not limited to, the United States of America, Japan and Korea;

b) all registrations, renewals, applications for registration, applications for renewal and similar or related documents relating to the trademarks, service marks, trade names, business names and commercial names referred to in the foregoing paragraph throughout the

world, including, but not limited to, the United States of America, Japan and Korea;

c) all good will of the business or businesses symbolized by the trademarks, service marks, trade names, business names and commercial names referred to in the foregoing paragraph;

d) all rights to use the name "Paolo Gucci" commercially (including, but not limited to, all rights under the Final Judgment, dated July 13, 1988, as modified, in *Paolo Gucci v. Gucci Shops, Inc.,* 83 Civ. 4453 (WCC) (S.D.N.Y.), and all other rights to identify products as having been designed or selected by, or under the supervision, direction or authority of, or with the approval of, Paolo Gucci), and all good will associated therewith, throughout the world, including, but not limited to, the United States of America, Japan and Korea;

e) every design, process, invention, trade secret, computer program, formula and similar property relating to any and all products designed or selected by, or to any and all designs created or selected by or under the supervision, direction or authority of, or approved by, Paolo Gucci, whether designed, selected or approved before or after the commencement of the above-captioned chapter 11 cases, used or to be used in connection with the name "Paolo Gucci" either alone or in combination with other words or symbols; and

f) any and all rights to license the use of any of the foregoing, subject to the right, title and interest of the Estate under the licensing agreement dated August 15, 1994 (the "Orologi License") between the Trustee and Orologi through its expiration on December 31, 2004 or its earlier termination (but upon the expiration or termination of such licensing agreement such right, title and interest shall revert to Gucci).

2. The Purchased Assets constitute property of the Estate under section 541 of the Bankruptcy Code.

3. PGDS does not own, or have the right to use or license, any or all of the Purchased Assets.

4. The Gucci Offer constitutes the highest and best offer for the purchase of the Purchased Assets and the sale by the Trustee to Gucci of the Purchased Assets on the terms and conditions of the Gucci Offer is in the best interests of the Estate and its creditors.

5. Gucci is a good faith purchaser of the Purchased Assets within the meaning of section 363(m) of the Bankruptcy Code.

6. Notice of the auction, the hearings to consider the Motions and the sale of the Purchased Assets to Gucci and the presentment of this Order was adequate and appropriate under the circumstances within the meaning of section 102 of the Bankruptcy Code.

7. Under section 363 of the Bankruptcy Code, the Trustee is hereby authorized to sell the Purchased Assets to Gucci on the terms and conditions set forth in the Gucci Offer.

8. Under section 363(f) of the Bankruptcy Code, the Purchased Assets shall be sold and conveyed to Gucci free and clear of any and all liens, claims and encumbrances with all such liens, claims and encumbrances attaching to the proceeds of sale.

9. Any person possessing designs created or selected by or under the supervision, direction or authority of, or approved by, Paolo Gucci after February 8, 1994 ("Postpetition Designs") shall deliver forthwith such designs to Gucci, subject to the right of Orologi to utilize any Postpetition Designs it may have under, and subject to the terms and conditions of, the Orologi License.

10. Any person (other than Gucci) possessing Postpetition Designs is enjoined from using those designs in connection with the names "Gucci" or "Paolo Gucci" or the phrase "Paolo by Paolo Gucci" and from using the "Paolo Gucci" name commercially, subject to the right of Orologi to utilize any Postpetition Designs it may have under, and subject to the terms and conditions of, the Orologi License.

11. The Trustee's termination of the Trackwise Stipulation is confirmed and approved and the Trustee shall have no further obligations thereunder.

12. The termination of all license agreements between Paolo Gucci and/or P.G. Creative Ltd. and Trackwise is hereby approved.

13. The rejection of each of the license agreements listed in Exhibit A hereto is hereby approved under section 365 of the Bankruptcy Code, subject to the agreement between Gucci and Gem International, Inc.

14. The Trustee is authorized and directed to waive and release Gucci from liability for any and all claims asserted in the action entitled *Frank G. Sinatra v. Guccio Gucci S.p.A.*, 95 Civ. 10578, and dismiss such action with prejudice.

15. The Trustee is hereby authorized and directed forthwith to move for, and use all reasonable, good faith efforts to obtain, (a) an order requiring that all designs created or selected by, or under the supervision, direction or authority of, or approved by, Paolo Gucci be delivered to Gucci subject to the right of Orologi to use the designs referred to in clause (b) hereof until the expiration or earlier termination of the Orologi License, and (b) an order requiring that all designs created or selected by, or under the supervision, direction or authority of, or approved by, Paolo Gucci and used or intended to be used by Orologi be deposited with the Court and (c) an order enjoining PGDS from interfering with Gucci's exclusive right, title and interest in and to the Purchased Assets and to their use and enjoyment thereof.

16. The Trustee is authorized and directed to execute such documents and take such actions as may be necessary, appropriate or desirable to consummate the

transactions contemplated hereby and effectuate the relief granted herein.

17. The Global Settlement Motion to the extent that it seeks approval of the PG Settlement, inclusive of the master license agreement dated as of October 3, 1995 between Paolo Gucci and PGDS, and the Creditors' Committee Motion are denied as moot.

18. The JPG Motion is withdrawn, with prejudice, but without prejudice to (a) JPG's right to assert a claim to all or a portion of the proceeds of the Gucci Sale for the value of the services performed by Paolo Gucci in creating or approving the Designs, giving effect to the right of the Trustee to use the Paolo Gucci name in connection therewith, and (b) the rights of the Trustee, the Creditors' Committee or any other party in interest to object to such claim or to assert counterclaims or setoffs thereto.

19. The PGDS Motion is denied.

20. The Reconsideration Motion is denied.

21. The Removal Motion is denied as moot.

22. The Expert Motion is denied as moot.

23. The Trustee shall not consummate the sale of the Purchased Assets to Gucci before October 17, 1996 at noon.

Dated: New York, New York
October 15, 1996

/s/ Jeffry H. Gallet
United States
Bankruptcy Judge

EXHIBIT A

1. License granted by Paolo Gucci to Licensing by Paolo, Inc. as reflected by that certain agreement between Paolo Gucci, as licensor and Licensing by Paolo, Inc., as licensee dated November 14, 1992.

2. License granted by Paolo Gucci to Creazioni Creative Corp., as reflected by:

   (a) Agreement between Paolo Gucci, as licensor and Creazioni Creative Corp., as licensee dated November 9, 1988;

   (b) Confirmation of Trademark License Agreement between Paolo Gucci, as licensor and Creazioni Creative Corp., as licensee dated April 15, 1993 which clarified and confirmed Agreement between Paolo Gucci, as licensor and Creazioni Creative Corp., as licensee dated November 9, 1988; and

   (c) Termination of License Agreement between Paolo Gucci, as licensor and Creazioni Creative Corp., as licensee, (unexecuted).

3. License granted by Paolo Gucci to PG Creative Ltd. as reflected by:

   (a) Assignment and Conveyance dated November 9, 1988 by and between Paolo Gucci and PG Creative Ltd.;

(b) Assignment and Conveyance dated February 1, 1990 by and between Paolo Gucci and PG Creative Ltd. which nullified and voided the November 9, 1988 Assignment and Conveyance;

(c) Mutual Consent of Termination dated December 15, 1992 of the Assignment and Conveyance by and between Paolo Gucci and PG Creative Ltd.;

(d) Confirmation of Termination of License dated in December, 1992 by and between Paolo Gucci and PG Creative Ltd.; and

(e) Confirmation of Termination of License dated May 11, 1993 by and between Paolo Gucci and PG Creative Ltd.

4. License granted by Paolo Gucci to Marketing Group Establishment as reflected by that certain agreement between Paolo Gucci, as licensor and Marketing Group Establishment, as licensee, dated September, 1993.

5. License granted by Paolo Gucci to Jem Group & Associates, Inc. to develop the MJ Knoud retail business as reflected by that certain agreement between Paolo Gucci, as licensor and Jem Group & Associates, Inc., as licensee, dated November 14, 1992.

6. License granted by Paolo Gucci to Jem Group & Associates, Inc. to develop the retail business known as the "Paolo Shop" as reflected by that certain agreement between Paolo Gucci, as licensor and Jem Group & Associates, Inc. as licensee, dated November 14, 1992.

APPENDIX I

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

Chapter 11 Case No.
94 B 40614 (JHG)

In re PAOLO GUCCI, et al.,
Debtor

October 9, 1996

AMENDED DECISION ON MOTION TO DETERMINE WHETHER POST PETITION DESIGNS ARE PROPERTY OF THE ESTATE

APPEARANCES:

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JEFFRY H. GALLET
UNITED STATES BANKRUPTCY JUDGE

I. Introduction

Paolo Gucci Design Studio ("PGDS") moves[1] before me for an order determining that certain designs, created by Paolo Gucci ("Paolo" or the "Debtor"), after the filing of his

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[1] The court has jurisdiction over this proceeding pursuant to 28 U.S.C. § 1334(b) and the "Standing Order of Referral of Cases to Bankruptcy Judges" of the United Sates District Court for the Southern District of New York, dated July 10, 1984 (Ward, Acting C.J.). This is a core matter under 28 U.S.C. § 157 (b) (2) (A).

bankruptcy petition, are not property of the estate. Frank G. Sinatra, the chapter 11 trustee (the "Trustee"), opposes the motion, arguing that the designs created post-petition are property of the estate. Orologi Paolo, Inc. ("OPI") and Guccio Gucci ("GG") support the Trustee's position.[2]

The genesis of this motion is the motion to approve a settlement agreement (the "Global Settlement") among the Trustee, Paolo, PGDS, Normans Ltd., Penelope Jayne Armstrong and her company, Centralbest Limited. That motion was made on December 19, 1995, shortly after Paolo's death in October. The primary element of the Global Settlement was the formation of a licensing entity, PGDS, in which Paolo and Enzo Stancato ("Stancato") would hold the master license for all of Paolo's licensing rights in the United States. In addition, Paolo would hold the remaining worldwide rights. PGDS, would enter into various sublicenses, the income, from which, would pay the estate for the rights.[3]

The Committee of Unsecured Creditors (the "Committee") objected to the Global Settlement, arguing that the Global Settlement was essentially a sale of the most valuable asset of the estate, the Paolo Gucci name, which must be done by sale pursuant to 11 U.S.C. § 363. The Committee then presented a bid by GG. I ordered an auction.

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[2] Initially, Jennifer Puddefoot Gucci, Paolo's widow, moved for an order declaring that she owned the post-petition designs. By stipulation, she acknowledged that the designs are property of the estate, and her motion has been withdrawn.

[3] Even though the motion to approve the Global Settlement was scheduled before me, Paolo may have entered into a licensing agreement with Stancato for designs created by him subsequent to the filing of the petition.

PGDS then moved to determine whether the post-petition designs created by Paolo were property of the estate.

Upon completion of the auction process, it was determined that GG was the successful bidder.

One of the requirements of the GG bid is a determination by this court that the purchased assets constitute property of the estate. GG and the Trustee claim that the purchased assets include:

> (a) all trademarks, service marks, trade names, business names and commercial names that contain the words "Paolo," "Gucci" or "Paolo Gucci";
>
> (b) all rights to use the name "Paolo Gucci" commercially including, but not limited to, all rights under the Final Judgment, dated July 1, 1988, as modified, in Paolo Gucci v. Gucci Shops, Inc. 83 Civ. 4453 (WCC) (S.D.N.Y.)
>
> (c) every design, process, invention, trade secret, computer program, formula, and similar property relating to any and all products designed or selected by, or to any and all designs created or selected by or under the supervision, direction or authority of, or approved by, Paolo Gucci, whether pre-petition or post-petition, used or to be used in connection with the name "Paolo Gucci"; and
>
> (d) all rights to license the use of any of the forgoing (subject the right, title and interest of the

estate and Orologi Paolo Corp. in connection with that certain licensing agreement dated January 1, 1990 as amended and assumed under Section 365 of the Bankruptcy Code).

PGDS claims ownership of some of that property. Therefore, in conjunction with a motion filed by PGDS, I will make the determination of whether the post-petition designs created by Paolo are property of the estate or PGDS.

II. Facts

A. The Licensing Business

In 1981, after leaving GG, Paolo created his own licensing business. That business licensed the "Paolo Gucci" name to various products.

In November 1988, Paolo entered into an agreement with Creazioni Creative Corp. (the "CCC Agreement" and "CCC"). CCC was granted the exclusive right to sublicense Paolo's trademark outside of the United States. In addition, CCC and Paolo entered into a second agreement whereby CCC agreed to hire Paolo, as an independent contractor, to create designs for CCC, act as a consultant and make promotional appearances.

At the same time Paolo entered into an agreement with P.G. Creative Ltd. (The "PG Agreement" and "PG Creative"). Under this agreement, Paolo assigned to PG Creative the "exclusive right to use for any or all lawful purposes the name 'Paolo Gucci', 'Gucci' or any other similar name or mark that in any way represents or reflects goodwill

or commercial value available to [Paolo] legally to use for commercial purposes." In addition, the PG Agreement also conveyed "[a]ll designs, creations, inventions, ideas and similar intellectual property . . . now or hereafter created by [Paolo] for commercial purposes." Moreover, the PG Agreement granted PG Creative "[t]he exclusive right to license the rights described . . . above."

PG Creative and CCC each entered into various sublicensing agreements.[4] The sublicensing agreements allowed the sublicensees to use Paolo's designs, the name "Paolo Gucci" and the phrase "Paolo Designed by Paolo Gucci." The agreements provided that the designs, ornamental appearances and copyrights for the licensed products were the "sole property of Licensor," and that Paolo was to be employed, appointed or retained as the respective licensor's designer and CCC or PG Creative agreed that Paolo would make public appearances and provide design and consultation services as required by the sublicensees.

In November 1992, Paolo entered into yet another Agreement with Licensing by Paolo (the "L.P. Agreement" and "L.P."). Under that agreement, L.P. was to regulate Paolo's licensing business in the United States with various sublicensees. Like the CCC and PG Creative Agreements,

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[4] These sublicensing agreements included agreements with Milano Furs, for fur and leather wear; Status Eyes, Ltd., for eye wear; Orologi Paolo Corp., for watches; Mega Corp Home Furnishings and Meubles Renel Inc., for furniture; Billy Who, for certain clothing; Trackwise Sales Corp., for products in Korea; and Ultima International Pens and Accessories, for pens, key chains, picture frames, money clips and belt buckles.

PUBLISHER'S NOTE

THE FOLLOWING PAGE IS UNAVAILABLE
FOR FILMING 44a

B. The Filing

On February 4, 1994, Paolo filed a petition for relief under Chapter 11 of the Bankruptcy Code. Pursuant to Local Bankruptcy Rule 52, Soo Kim, Paolo's authorized representative, filed an affidavit which stated:

> [Paolo] is an individual whose principal business consists of the licensing of trademarks for use in various commercial ventures and design work in conjunction therewith. This petition is necessitated by several disparate litigated matters which are threatening the commercial viability of the trademarks and licenses.

In his schedules, Paolo listed as an asset his interest in certain trademarks in the United States and Korea, which he valued at $5,000,000. In addition, in response to a question concerning the nature of his business, including sole proprietorships, Paolo listed his interest in "Paolo Gucci Designs," his sole proprietorship licensing business, which utilized his trademarks and name.

After the filing, I approved the appointment of a chapter 11 trustee to administer Paolo's estate. One of the Trustee's first tasks was to investigate the various licensing businesses. Upon this investigation, the Trustee discovered that several sublicensees were actively marketing Paolo Gucci products and that there appeared to be some litigation resulting from Paolo's failure to live up to this obligations [sic] under the various licensing agreements. This litigation prevented the launching of certain products and, in addition, damaged the reputation of Paolo's sole proprietorship. Moreover, the bad publicity that Paolo had been receiving

regarding his pending divorce proceedings, as well as his mistreatment of certain horses on his horse farm, further damaged the goodwill associated with his trademarks and the use of his name.

Paolo did not assist the Trustee, post-petition, in any of the Trustee's efforts to work with the various licensees and sublicensees. Although the Trustee has no personal knowledge that Paolo created any designs post-petition, Stancato testified in a deposition that Paolo created numerous designs after the commencement of the case.

Although Paolo did not cooperate with the Trustee regarding the various licenses, eventually he did negotiate with the Trustee to resolve the case, resulting in the Global Settlement.

III. Law

11 U.S.C. § 541 defines property of the estate as "all legal or equitable interests of the debtor in property as of the commencement of the case."

> As previously stated, under section 541(a) the estate is normally comprised only of property and interests therein belonging to the debtor at the time the petition is filed. In general, property not then owned but subsequently acquired by the debtor does not become property of the estate, but becomes the debtor's, clear of all claims that are discharged by the bankruptcy proceeding.

L. King, Collier on Bankruptcy, ¶ 541.05 (15th Edition, 1996).

11 U.S.C. § 541 (a) (6) and (7) provide that property of the estate includes:

> (6) Proceeds, product, offspring, rents and profits of or from property of the estate, except such as are earnings from services performed by an individual debtor after the commencement of the case.
>
> (7) Any interest in property that the estate acquires after the commencement of the case.

11 U.S.C. § 541 (a) (6) and (7).

There is no dispute that Paolo's pre-petition property is now owned by the estate. At issue is what happens to any designs created post-petition.

> Pre-petition assets, . . . , are those assets rooted in the debtor's pre-petition activities, including any proceeds that may flow from those assets in the future. These assets belong to the estate and ultimately the creditors. Post-petition assets are those that result from the debtor's post petition activities and are his to keep free and clear of the bankruptcy proceeding.

In re Andrews, 80 F.3d 906, 910 (4th Cir.), rehearing denied, 90 F.3d 102 (4th Cir. 1996). As the Supreme Court has stated, when post-petition property "is sufficiently rooted in the pre-bankruptcy past and so little entangled with the bankrupt's ability to make an unencumbered fresh start that it should be regarded as 'property' under § 70a (5)." Segal v. Rochelle, 382 U.S. 378, 380 (1966). In Segal, the Supreme

Court determined that potential claims for loss-carryback refunds would be included in the debtor's estate because they were rooted in the pre-bankruptcy past. A similar conclusion was reached in the Andrews case where the Court of Appeals for the Fourth Circuit determined that payments to a debtor pursuant to a pre-petition non-compete agreement were not excluded under the "earnings from services performed" exception in 11 U.S.C. § 541 (a) (6). Since the court determined that the payments were clearly rooted in the debtor's pre-petition sale of its business, those payments would be included as property of the estate. In re Andrews, 80 F.3d at 911.

PGDS argues that a simple reading of 541 (a) leads to the conclusion that any property, not then owned at the commencement of the case, but acquired subsequently, does not become property of the estate, but remains the debtor's. Therefore, the designs, which Paolo created post-petition, belonged to him. In addition, PGDS argues that the post-petition designs are excluded from 11 U.S.C. 541 (a) (7) in that the designs were not acquired by the estate, post-petition, but rather they were acquired by Paolo, the debtor. Casey v. Hackman, 963 F.2d 1347 (10th Cir. 1992); In re Doemling, 127 B.R. 954 (W.D. Pa. 1991).

In Casey the Tenth Circuit determined that a patent on a device invented by the debtor after the commencement of the case, and the revenues from the invention, were property of the debtor and not property of the estate. In Doemling, the District Court for the Western District of Pennsylvania determined that the debtor's cause of action for an automobile accident which occurred five months after the commencement of the case was not property of the estate. In each case, the court relied on a literal reading of 11 U.S.C.

541 (a). However, while I agree with the holdings in Casey and Doemling, they are distinguishable here. PGDS has not established that the post-petition designs are not property of the estate. In re Cooley, 87 B.R. 432, 441 (Bankr. S.D.Tex. 1988).

PGDS fails to acknowledge that these post-petition designs, if they are to be marketed under Paolo's name, are clearly rooted in Paolo's pre-petition activity. When Paolo filed his petition, his sole business was the licensing of his name. His principal asset was his interest in his name and trademarks. That name and those trademarks, together with the designs of the licensing business, became property of the estate upon the filing of the petition. United States v. Whiting Pools, Inc., 462 U.S. 198, 204-205 & n.9 (1983). Moreover, "upon the bankruptcy of the trademark owner, the trademark together with the goodwill it symbolizes becomes vested in the trustee in bankruptcy . . . ." Johanna Farms, Inc., v. Citrus Bowl, Inc., 468 F.Supp. 866, 874 (E.D.N.Y. 1978); U.S. v. Inslaw, Inc., 932 F.2d 1467, 1471 (D.C. Cir. 1991), cert. denied, 112 S.Ct. 913 (1992).

Shortly after Paolo filed his petition, I appointed the Trustee who acceded to all the rights of the debtor, at the time of the filing. Those rights included the right to operate the business of the debtor and to administer all the property that became property of the estate, including Paolo's trademarks, designs and goodwill. 11 U.S.C. § 1108.

Utimately, the Trustee chose to sell Paolo's licensing business. The sale of a trademark includes the sale of the mark along with the goodwill and tangible business assets which go along with the trademark. United States Ozone Co. v. United States Ozone Co., 62 F.2d 881, 885-86 (7th Cir.

1933). It would be impossible for the Trustee to sell the trademark without the essential items that go along with it. "A trademark is not a property right in gross which may be sold apart from the business or goodwill with which the trademark has been associated." Marshak v. Green, 746 F.2d 927, 929 (2d Cir. 1984). Indeed, if the tangibles of a bankrupt are sold without goodwill or trademarks being sold, the trademark ceases to exist. Adams Apple Distrib. Co. v. Papeleras Reunidas, S.A., 773 F.2d 925, 931 (7th Cir. 1985).

Moreover, "[w]hen a business purchases trademarks and goodwill, the essence of what it pays for is the right to inform the public that it is in possession of the special experience and skill symbolized by the name of the original concern, and the sole authority to market its products." Levitt Corp. v. Levitt, 593 F.2d 463, 468 (2d Cir. 1979). Therefore, "[t]o protect the property interest of the purchaser, then, the courts will be especially alert to foreclose attempts by the seller to 'keep for himself' the essential thing he sold, and also keep the price he got for it." Id., citing Guth v. Guth Chocolate Co., 224 F. 932, 934 (4th Cir), cert. denied, 239 U.S. 640 (1915).

If I were to find that Paolo's post-petition designs were not property of the estate, I would essentially be creating in Paolo the right to continue the very business the Trustee sold. Paolo's ability to create designs bearing his name and trademark is so inexorably tied to the licensing business that it is impossible to separate the two. They are in fact one in the same, and each cannot exist without the other.

I agree with the Trustee's characterization that if this were a situation where Paolo designed for another company,

and those designs were to be used in conjunction with a trademark, other than "Paolo Gucci," then Paolo probably would have been entitled to retain those post-petition designs, and the revenue flowing therefrom. However, those are not the facts before me. Paolo, and his purported successor in interest, PGDS, cannot be allowed to continue the business of licensing Paolo's name and trademark. That business, which the Trustee is selling, is the exact business for which Paolo originally sought bankruptcy protection.

Therefore, it is the determination of this court that any post-petition designs created by Paolo were done to be marketed under the Paolo name and trademark and are property of the estate. Any party possessing post-petition designs shall deliver them to the Trustee, forthwith. In addition, anyone possessing designs created by Paolo is enjoined from using those designs in connection with the names "Gucci" or "Paolo Gucci" or the phrase "Paolo by Paolo Gucci" and retains no rights to use the "Paolo Gucci" name commercially. All rights to utilize the "Paolo Gucci" trademark vests with the Trustee.

Settle Order

Dated: October 9, 1996
New York, New York

/s/ (illegible)
Jeffry H. Gallet
United States Bankruptcy Judge

APPENDIX J

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

83 Civ. 4453 (WCC)

PAOLO GUCCI,
Plaintiff,

- against -

GUCCI SHOPS, INC.,
Defendant.

January 12, 1994

ORDER

This matter having come before this Court for hearings on October 16, 1992 and September 24, 1993, the Honorable William C. Conner presiding, at the United States Courthouse, Foley Square, New York, New York, and argument having been heard and considered,

IT IS ORDERED THAT:

1. This Court's Final Judgment, issued on July 13, 1988, is hereby clarified and, to the extent necessary, modified, as follows:

(a) The words "GUCCI" or "PAOLO GUCCI" may be used within the Shield Design Logo (attached to this Order as Attachment A) only

(A) as part of the complete phrase "PAOLO DESIGNED BY PAOLO GUCCI" contained within that Shield Design Logo, provided that the first word "PAOLO" is significantly larger and more prominent than any other word in the phrase, or

(B) when the Shield Design Logo is used in immediate proximity to the separately set forth phrase "PAOLO DESIGNED BY PAOLO GUCCI" and (i) the first "PAOLO" within that separately set forth phrase is significantly larger and more prominent than the words "DESIGNED BY PAOLO GUCCI" and (ii) the words "DESIGNED BY PAOLO GUCCI" are all in the same typestyle, color and size (as in Attachment C to this Order);

(b) The words "GUCCI" or "PAOLO GUCCI" may not be used within the Shield Design Logo except as provided in subparagraph (a) above;

(c) Whenever the phrase "PAOLO (or other TRADEMARK) DESIGNED BY PAOLO GUCCI" appears on a product or on a label affixed to a product, the word "PAOLO" (or other TRADEMARK) must be

significantly larger and more prominent than the words "DESIGNED BY PAOLO GUCCI," and the words "DESIGNED BY PAOLO GUCCI" must all appear in the same typestyle, color and size.

2. This Court's Final Judgment, dated July 13, 1988, is hereby clarified to reflect that paragraph 14 of the Final Judgment shall not be construed to prohibit plaintiff, Mr. Paolo Gucci, from:

(a) licensing his trademark rights to a corporation which has the right to find sub-licenses for his trademarks and designs; and

(b) permitting said corporation to grant said sub-licensees the right to use the phrases "Designed By Paolo Gucci" and/or "Selected By Paolo Gucci" in accordance with the Final Judgment;

PROVIDED ABSOLUTELY, HOWEVER, THAT

All designs indicated as being "Designed By Paolo Gucci" are, in fact, designed by Mr. Paolo Gucci, and all designs indicated as being "Selected By Paolo Gucci" are, in fact, selected by Mr. Paolo Gucci.

3. A copy of this Order shall be provided by Paolo Gucci to all persons whom he or any other person has authorized, may authorize or intend to authorize to use the name "PAOLO GUCCI," or to exercise any of Paolo Gucci's other rights under the Final Judgment, in the United States of America.

4. Except as modified by the Order, the Final Judgment shall remain in full force and effect.

5. This Court retains jurisdiction over the parties to this action for the purposes of enforcement of the Final Judgment and this Order.

/s/ William C. Conner
Sr. United States District Judge

Dated: New York, New York
January 12, 1994